

**SPANISH VALLEY WATER & SEWER
IMPROVEMENT DISTRICT
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

SPANISH VALLEY WATER & SEWER IMPROVEMENT DISTRICT
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AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Spanish Valley Water & Sewer
Improvement District
Moab, Utah 84532

We have audited the accompanying financial statements of the governmental activities of Spanish Valley Water & Sewer Improvement District, as of and for the year ended December 31, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of Spanish Valley Water & Sewer Improvement District, as of December 31, 2005, and the respective changes in financial position and the respective budgetary comparison of the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, as listed in the financial section of the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated May 12, 2006 on our consideration of Spanish Valley Water & Sewer Improvement District's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Spanish Valley Water & Sewer Improvement District's basic financial statements. The accompanying financial information listed as supporting schedules is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

SMUIN, RICH & MARSING

A handwritten signature in cursive script, appearing to read "Smuin, Rich & Marsing", written in dark ink.

Price, Utah

May 12, 2006

**SPANISH VALLEY WATER & SEWER IMPROVEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005**

This discussion and analysis of the Spanish Valley Water & Sewer Improvement District's financial performance provides an overview of the District's financial activities for the year ending December 31, 2005. This report is in conjunction with the District's financial statements, which are a part of this report.

The District was originally created in 1976 to provide water and sewer service to the unincorporated area south of Moab City. The District basically receives taxes and pays interest and principal on its outstanding bonds. The maintenance and operation of its systems are done through Grand Water & Sewer Service Agency (GW&SSA). GW&SSA was put in place January 1, 1999 as an inter-local agency to manage, maintain, and operate three Districts. The other two districts are: Grand County Special Service Water District and Grand County Water Conservancy District.

FINANCIAL HIGHLIGHTS

- ❖ Capital assets decreased \$256,172 during 2005 due to depreciation.
- ❖ During the year, the District received \$319,271 from GW&SSA for bond expenses.
- ❖ The District's debt decreased \$255,419 from \$4,113,693 in 2004 to \$3,858,274 in 2005.
- ❖ Net assets increased during 2005 by \$43,464.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 12 and 13) provides information about the activities of the District as a whole and present a longer-term view of the District's finances. Fund Financial Statements start on page 14. These statements provide information on how services were financed in the short term as well as what remains for future spending.

REPORTING THE DISTRICT AS A WHOLE

The District receives revenue from three main sources: property taxes, operating transfers from GW&SSA and interest earnings. These funds are used to pay the principal and interest on outstanding debt and make improvements to their water and sewer systems.

REPORTING THE DISTRICT AS A WHOLE (Continued)

The analysis of the District as a whole begins on page 12. The Statement of Net Assets and the Statement of Activities report information about the District's activities in a way that helps determine if the District's financial health as a result of this year's activities.

These two statements report the District's *net assets* and changes in them. Net assets equal the difference between assets and liabilities. This is one way to measure the District's financial position. Increases or decreases in the District's net assets are one indicator of the District's financial position. Other non-financial factors, such as changes in the District's property tax base and the condition of the District's water and sewer systems need to be considered to assess the health of the District.

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUND

The District's services are reported in one governmental fund. This fund focuses on how money flows in and out and the balance left at year end. The fund is reported using *modified accrual* accounting, which measures cash and other *financial* assets that can be converted to cash. The governmental fund statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps determine the financial resources that can be spent in the near future to finance the District's programs. The District has one fund, the General fund.

A large portion of the District's funding is provided through property taxes and transfers from the Agency. The District Board determined several years ago that since a large portion of the revenue is generated in property taxes and operating transfers from the Agency, the proper fund classification for the District was governmental funds rather than proprietary funds, according to accounting standards.

THE DISTRICT AS A TRUSTEE

The District does not hold any funds or property in a trustee capacity.

THE DISTRICT AS A WHOLE

During the year, the District's net assets increased by \$43,464. The following analysis focuses on the net assets (table 1) and changes in net assets (tables 2 & 3) of the District's governmental activities.

At December 31, 2005, the District's total net assets were \$6,889,834. The unrestricted net assets, the part of the net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements was \$64,507.

The District's increase of \$43,464 in net assets (an increase of only 0.63 percent over the prior year) indicates that the District is in the same financial position as the previous year.

THE DISTRICT AS A WHOLE (Continued)

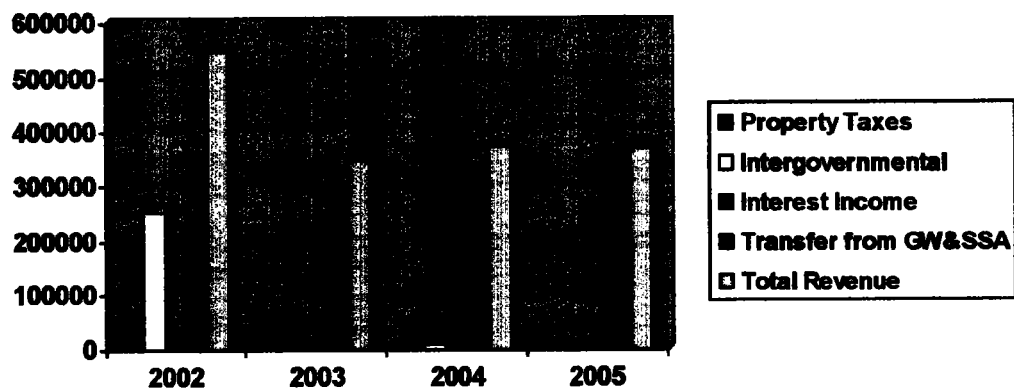
Table 1
Net Assets

Assets:	2002	2003	2004	2005	2004-2005 Net Changes
Current assets	\$ 96,902	\$ 66,067	\$ 68,247	\$ 64,507	\$ (3,740)
Noncurrent assets	801,857	265,590	254,481	298,724	44,243
Capital assets, net of depreciation	<u>10,743,507</u>	<u>10,799,768</u>	<u>10,637,355</u>	<u>10,384,877</u>	<u>(252,478)</u>
Total assets	<u>\$ 11,642,266</u>	<u>\$ 11,131,425</u>	<u>\$ 10,960,083</u>	<u>\$ 10,748,108</u>	<u>\$ (211,975)</u>
Liabilities:					
Long-term debt outstanding	\$ 4,315,480	\$ 4,066,545	\$ 3,840,792	\$ 3,538,339	\$ (302,453)
Current portion of long-term debt	499,162	248,934	254,686	303,052	48,366
Interest payable	21,799	20,337	18,215	16,883	(1,332)
Other liabilities	<u>22,806</u>				
Total liabilities	<u>\$ 4,859,247</u>	<u>\$ 4,335,816</u>	<u>\$ 4,113,693</u>	<u>\$ 3,858,274</u>	<u>\$ (255,419)</u>
Net assets:					
Investment in capital assets, net of debt	\$ 5,928,865	\$ 6,484,290	\$ 6,531,071	\$ 6,526,603	\$ (4,468)
Restricted for:					
Debt service	801,857	265,590	247,052	298,724	51,672
Unrestricted	<u>52,297</u>	<u>45,729</u>	<u>68,247</u>	<u>64,507</u>	<u>(3,740)</u>
Total net assets	<u>\$ 6,783,019</u>	<u>\$ 6,795,609</u>	<u>\$ 6,846,370</u>	<u>\$ 6,889,834</u>	<u>\$ 43,464</u>

CHANGES IN REVENUES

The District receives revenue from three sources: Property taxes, interest earnings and operating transfers from GW&SSA. Total revenues decreased \$2,021 or 0.54 percent over the prior year.

Table 2 Changes in Revenues					
Revenues	2002	2003	2004	2005	2004-2005 % Change
Property taxes	\$ 45,225	\$ 45,879	\$ 47,475	\$ 43,194	-9.02%
Intergovernmental -grant	253,420		7,400		-100.00%
Interest income	24,873	8,851	5,358	9,554	78.31%
Transfer from GW&SSA	226,700	293,247	313,807	319,271	1.74%
Total Revenues	\$ 550,218	\$ 347,977	\$ 374,040	\$ 372,019	-0.54%



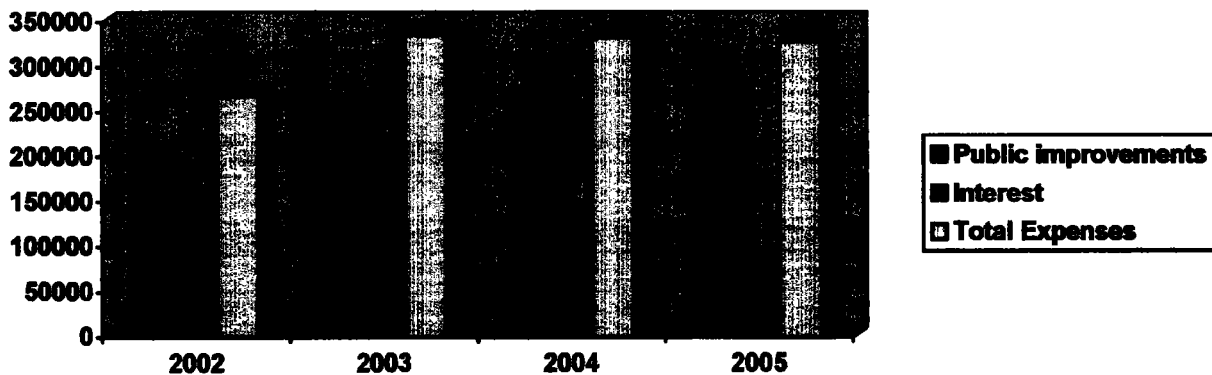
CHANGES IN EXPENSES AND NET ASSETS

The District's primary expenses include: Debt interest payments and depreciation. During the year, interest expense decreased slightly while depreciation expense increased significantly and as a result, total expenses decreased \$4,837 or 1.45 percent over the prior year.

During 2005, net assets increased \$43,464 or 14.38 percent over the prior year, see table 3.

Table 3
Changes in Expenses and Net Assets

Expenses	2002	2003	2004	2005	2004-2005 % Change
Interest on debt	\$ 83,712	\$ 79,411	\$ 73,303	\$ 68,644	-6.36%
Public improvements	183,942	255,976	260,089	259,911	-0.07%
Total expenses	\$ 267,654	\$ 335,387	\$ 333,392	\$ 328,555	-1.45%
Net assets - beginning	\$ 6,530,450	\$ 6,783,019	\$ 6,795,609	\$ 6,846,370	
Prior per adjustment	(30,000)		10,113		
Net assets - ending	6,783,019	6,795,609	6,846,370	6,889,834	
Change in net assets	\$ 282,569	\$ 12,590	\$ 50,761	\$ 43,464	-14.38%



GOVERNMENTAL ACTIVITIES

Table 4 presents the District's net cost of services (total cost less revenue generated by activity). The net cost for all governmental activities was \$328,555. As shown in the Statement of Activities, located on page 13, the amount that our taxpayers ultimately financed for these activities through property taxes was \$43,194. This points out that the District relies upon property taxes to finance 13.15% of its operations.

Table 4
Governmental Activities

	Total Cost of Services 2005	Program Revenue 2005	Net Cost of Services 2005
Primary government			
Governmental activities:			
Public Improvements	\$ 259,911		\$ 259,911
Interest on long-term debt	68,644		68,644
	<u>\$ 328,555</u>	<u>\$ -</u>	<u>\$ 328,555</u>

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the Board amended the District's budget one time. The budget amendment was to adjust for estimates made in the prior year, to prevent budget overruns and to more closely reflect the District's financial picture.

After these adjustments, the actual expenditures were less than the final budgeted expenditures by \$27,808 and actual resources available for appropriation (revenues) were \$533 above the final budgeted amount (see comparison in table 5 located on the next page).

GENERAL FUND BUDGETARY HIGHLIGHTS (Continued)

Table 5
Budget vs Actual

	2005 Actual	12/8/2004 2005 Budget	Amended 12/9/2005 2005 Budget	Actual vs Budget Variance
Revenues				
Taxes	\$ 43,194	\$ 44,615	\$ 44,615	\$ (1,421)
Interest income	9,554	4,500	7,600	1,954
	<u>\$ 52,748</u>	<u>\$ 49,115</u>	<u>\$ 52,215</u>	<u>\$ 533</u>
Expenses				
Public improvements	\$ 24	\$ 35	\$ 24	
Principal on debt	254,087	278,180	278,180	\$ (24,093)
Interest on debt	69,976	73,691	73,691	(3,715)
	<u>\$ 324,087</u>	<u>\$ 351,906</u>	<u>\$ 351,895</u>	<u>\$ (27,808)</u>
Other Financing Sources (Uses)				
Operating Transfers	\$ 319,271	\$ 322,282	\$ 319,271	
	<u>\$ 319,271</u>	<u>\$ 322,282</u>	<u>\$ 319,271</u>	<u>\$ -</u>

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

No future projects are planned at this time.

CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)

Table 6
Capital Assets at Year-end
(Net of Depreciation)

	2002	2003	2004	2005
Land	\$ 46,547	\$ 46,547	\$ 46,547	\$ 46,547
Land improvements	1,038	798	599	319
Building/building improvements	11,481	10,511	9,539	8,568
Water/Sewer Improvements	5,678,267	10,737,760	10,578,528	10,324,528
Equipment	5,703	4,152	2,162	1,201
Construction work in progress	5,000,471			
Total	\$ 10,743,507	\$ 10,799,768	\$ 10,637,375	\$ 10,381,163

Debt

At the year-end, the District had \$3,858,274, in notes, general obligation and revenue bonds outstanding. This is a decrease of \$255,419 or 8.21 percent compared to the prior year.

Table 7
Outstanding Debt at Year-End

	2002	2003	2004	2005
Bonds and notes payable	\$ 4,814,642	\$ 4,335,816	\$ 4,113,693	\$ 3,858,274

ECONOMIC FACTORS AND NEXT YEARS BUDGET AND RATES

The District experiences a constant change in its financial condition due to an average growth rate of 4.97 percent. Radio read meters are currently being added to the drinking water system with an anticipated completion date of 2007 for the full system. The budget for the next year includes costs associated with this project.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens with a general overview of the District's finances and to show accountability for the money it receives. If you have questions about this report or need additional financial information, contact Terry Sykes, Manager/Operator, Gary Wilson, Chairman, Lance Christie, Vice Chairman, Mike Holyoak, Clerk, John Hartley, Treasurer, or A. Dan Holyoak, Trustee at P.O. Box 1046, Moab, Utah 84532.

SPANISH VALLEY WATER & SEWER IMPROVEMENT DISTRICT
STATEMENT OF NET ASSETS
DECEMBER 31, 2005

	GOVERNMENTAL ACTIVITIES
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 1,781
Investments, unrestricted	26,039
Investments, restricted	298,724
Receivables:	
Taxes	36,687
Total current assets	<u>\$ 363,231</u>
Noncurrent assets:	
Bond issuance costs, net of amortization	\$ 3,714
Capital assets, net of accumulated depreciation	
Land	46,547
Land improvements	319
Buildings	8,568
Water/sewer improvements	10,324,528
Equipment	1,201
Total noncurrent assets	<u>\$ 10,384,877</u>
Total assets	<u>\$ 10,748,108</u>
LIABILITIES	
Current liabilities:	
Bond interest payable	\$ 16,883
Current portion of long-term obligations	303,052
Total current liabilities	<u>\$ 319,935</u>
Noncurrent liabilities:	
Noncurrent portion of long-term obligations	\$ 3,538,339
Total liabilities	<u>\$ 3,858,274</u>
NET ASSETS	
Invested in capital assets, net of related debt	\$ 6,526,603
Restricted for:	
Debt service	298,724
Unrestricted	64,507
Total net assets	<u>\$ 6,889,834</u>
Total liabilities and net assets	<u>\$ 10,748,108</u>

"The accompanying notes are an integral part of this statement."

SPANISH VALLEY WATER & SEWER IMPROVEMENT DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense)</u>
		<u>Charges for</u>	<u>Capital</u>	<u>Revenue and</u>
		<u>Services</u>	<u>Grants and</u>	<u>Changes in</u>
			<u>Contributions</u>	<u>Net Assets</u>
				<u>Governmental</u>
				<u>Activities</u>
Primary Government				
Governmental activities:				
Highways and public improvements	\$ 259,911			\$ (259,911)
Interest and fees on long-term debt	68,644			(68,644)
Total governmental activities	\$ 328,555	\$...	\$...	\$ (328,555)
General Revenues:				
Taxes:				
Property taxes, levied for general purposes				\$ 43,194
Investment earnings				9,554
Operating transfer from other governments				319,271
Total general revenues, special items, and transfers				\$ 372,019
Change in net assets				\$ 43,464
Net assets - beginning				6,846,370
Net assets - ending				\$ 6,889,834

"The accompanying notes are an integral part of this statement."

SPANISH VALLEY WATER & SEWER IMPROVEMENT DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2005

ASSETS

Cash in banks	\$ 1,781
Investments, unrestricted	26,039
Investments - restricted	298,724
Property taxes receivable	36,687
	<hr/>
Total assets	\$ 363,231
	<hr/>

LIABILITIES AND FUND EQUITY

LIABILITIES:

Total liabilities	<hr/> \$... <hr/>
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FUND EQUITY:

Fund balance-	
Designated	\$ 298,724
Undesignated	64,507
	<hr/>
Total fund equity	\$ 363,231
	<hr/>
Total liabilities and fund equity	\$ 363,231
	<hr/>

"The accompanying notes are an integral part of this statement."

SPANISH VALLEY WATER & SEWER IMPROVEMENT DISTRICT
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
DECEMBER 31, 2005

Total fund balances - governmental fund types: \$ 363,231

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore are not reported in the funds.

Land	\$	46,547	
Land improvements		319	
Buildings		8,568	
Water/sewer improvement		10,324,528	
Equipment		1,201	
		10,381,163	

Bond issuance costs are reported as expenditures in the governmental funds.

The cost is \$37,144 and the related amortization is \$33,430. 3,714

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Interest payable	\$	(16,883)	
Bonds payable - current portion		(303,052)	
Bonds payable - due one year or more		(3,538,339)	
		(3,858,274)	

Net assets of government activities \$ 6,889,834

"The accompanying notes are an integral part of this statement."

SPANISH VALLEY WATER & SEWER IMPROVEMENT DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005

	TOTALS GOVERNMENTAL FUND TYPES
	<u>GENERAL</u>
REVENUES:	
Taxes	\$ 43,194
Miscellaneous revenues	9,554
	<hr/>
Total Revenues	\$ 52,748
	<hr/>
EXPENDITURES:	
Highways and public improvements	\$ 24
Debt service -	
Principal	254,087
Interest and fees	69,976
	<hr/>
Total expenditures	\$ 324,087
	<hr/>
Excess of revenues over (under) expenditures	\$ (271,339)
	<hr/>
OTHER FINANCING SOURCES (USES):	
Operating transfers from other governments	\$ 319,271
	<hr/>
Total other financing sources (uses)	\$ 319,271
	<hr/>
Excess of revenues and sources over (under) expenditures and uses	\$ 47,932
	<hr/>
FUND BALANCES, January 1	315,299
	<hr/>
FUND BALANCES, December 31	\$ 363,231
	<hr/>

"The accompanying notes are an integral part of this statement."

**SPANISH VALLEY WATER & SEWER IMPROVEMENT DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR FISCAL YEAR ENDED DECEMBER 31, 2005**

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balances - total governmental funds	\$	47,932
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation (\$256,172) exceeded capital outlays (\$0) in the current period.

(256,172)

The issuance of long-term debt (e.g., bonds) provide current financial resources to governmental funds, while the repayment of the principal of and interest of long-term debt consumes the current financial resources of governmental funds. In the Statement of Activities, principal payments on bonds are not recorded and interest expense is recognized as it accrues, regardless of when it is due. Also, governmental funds report the effect of issuances costs when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:

Repayment of bond principal	\$	254,087	
Interest expense - debt		1,332	
Amortization of bond issuance costs		(3,715)	251,704

Change in net assets of governmental activities	\$	43,464
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"The accompanying notes are an integral part of this statement."

SPANISH VALLEY WATER & SEWER IMPROVEMENT DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005

	GENERAL			
	ORIGINAL BUDGET	FINAL APPROPRIATED BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES:				
Taxes	\$ 44,615	\$ 44,615	\$ 43,194	\$ (1,421)
Miscellaneous revenues	4,500	7,600	9,554	1,954
Total revenues	\$ 49,115	\$ 52,215	\$ 52,748	\$ 533
EXPENDITURES:				
Highways and public improvements	\$ 35	\$ 24	\$ 24	
Debt service -				
Principal	278,180	278,180	254,087	\$ 24,093
Interest and fees	73,691	73,691	69,976	3,715
Total expenditures	\$ 351,906	\$ 351,895	\$ 324,087	\$ 27,808
Excess of revenues over (under) expenditures	\$ (302,791)	\$ (299,680)	\$ (271,339)	\$ 28,341
OTHER FINANCING SOURCES (USES):				
Operating transfers from other governments	\$ 322,282	\$ 319,271	\$ 319,271	
Total other financing sources (uses)	\$ 322,282	\$ 319,271	\$ 319,271	\$...
Excess of revenues and sources over (under) expenditures and uses	\$ 19,491	\$ 19,591	\$ 47,932	\$ 28,341
FUND BALANCES, January 1	(19,491)	(19,591)	315,299	315,299
FUND BALANCES, December 31	\$...	\$...	\$ 363,231	\$ 343,640

"The accompanying notes are an integral part of this statement."

SPANISH VALLEY WATER & SEWER IMPROVEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

1. HISTORY AND ORGANIZATION

Spanish Valley Water & Sewer Improvement District, (referred to as the District hereafter), was organized in 1976 by the Grand County Council. The District has a five-member board of trustees who are all appointed by the Grand County Council. The District provides water and sewer services to the unincorporated areas south of Moab City.

2. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

The financial statements of Spanish Valley Water & Sewer Improvement District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the District are described below.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, (as amended by GASB Statement No. 37) Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments. Certain significant changes in the Statement include the following:

1) The financial statements include:

A Management's Discussion and Analysis (MD&A) providing an analysis of the District's overall financial position and results of operation.

Financial statements prepared using full-accrual accounting for all the District's activities.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements).

A. Reporting Entity

Spanish Valley Water & Sewer Improvement District is a political subdivision of the State of Utah. A five-member board of trustees, which are appointed by the Grand County Council, governs the District. The District is a legally separate entity that possesses the powers to set its own budget, incur debt, to sue and be sued, and to own and lease property. The County does not exercise significant controlling powers over the District. As such, the District is not a component unit, as defined by the Governmental Accounting Standards Board in statement number 14 "The Financial Reporting Entity". Further, as defined in this statement, the District has no component units, which should be included in the accompanying financial statements. The District is mentioned in the footnote disclosures in the financial statements of Grand County as a related organization.

2. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (Continued)

A. Reporting Entity (Continued)

All financial activities over which the District has oversight responsibility are included in this report. The basis for inclusion or exclusion of other entities in the District's financial statements was based on the criteria set forth in the Governmental Accounting Standards Board (GASB) pronouncements. The basic criteria for including an entity, a board, or an agency in this report is the existence and exercise of oversight responsibility; consideration has been given to financial interdependency, ability to designate management, ability to significantly influence operations, and accountability for fiscal matters. According to the above criteria, no other entities have been included in the District's financial statements.

B. Government-Wide Financial Statements

Generally accepted accounting principals (GAAP) require that state and local governments provide a government-wide statement of net assets and a government-wide statement of activities. These government-wide financial statements are required to be presented using the economic resources measurement focus and the accrual basis of accounting, the same measurement focus and basis of accounting employed by private-sector business enterprises and not-for-profit organizations.

The statement of activities demonstrates the degree to which the direct expense of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers who purchase, use or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function.

The statement of net assets is the basic government-wide statement of position that presents all of the District's permanent accounts (assets, liabilities, and net assets).

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (Continued)**

C. **Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Cont'd)**

The District reports the following major governmental funds:

The general fund is the District's only fund. It accounts for all financial resources of the District.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the District's policy to first use restricted resources then unrestricted resources, as they are needed.

D. **Budgetary Data**

The District follows the budgetary practices and procedures required by State law. These requirements are summarized as follows:

1. The District adopts a formal budget.
2. The budget is a complete financial plan that identifies all estimated revenues and all appropriations for expenditures for the year. The budget must balance - that is, estimated revenues and expenses must equal.
3. On or before November 1, the District Manager prepares a tentative budget and files it with the Board of Trustees.
4. The tentative budget is a public record and is available for public inspection for at least ten days prior to public hearings held to consider adoption of the budget.
5. Notice of the scheduled public hearings is published at least seven days prior to the meetings.
6. Public hearings are held on the tentatively adopted budget. Members of the public may comment on the budget and recommend changes to the Board of Trustees.
7. The Board of Trustees considers the comments made by the public and makes final adjustments to the budget.
8. By December 15, the Board of Trustees adopts the budget by resolution. A copy of the budget is certified by the County Auditor and is filed with the State Auditor within thirty days of adoption. A certified copy of the budget is available for public inspection.
9. The budget may be amended to reflect changes in circumstances, which occur during the year.

E. **Cash and Cash Equivalents**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of six months or less from the date of acquisition, including investment in the Public Treasurers' Investment Fund (PTIF).

F. **Investments**

Investments are stated at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

2. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (Continued)

G. Capital Assets

Capital assets, which include land, land improvements, water/sewer improvements, buildings, and equipment, are reported in the applicable governmental columns in the government-wide financial statements. The District defines Capital Assets as assets with an individual cost of at least \$3,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction is not capitalized.

Land improvements, water and sewer improvements, buildings, and equipment assets of the District are depreciated using the straight-line method over the following estimated lives:

<u>Assets</u>	<u>Years</u>
Land improvements	10
Water/sewer improvements	10 – 60
Buildings	10 – 30
Equipment	3 – 20

H. Property Taxes

The property tax revenue of the District is collected and distributed by the Grand County Treasurer as an agent of the District. Utah statutes establish the process by which taxes are levied and collected. The county assessor is required to assess real property as of January 1 and complete the tax rolls by May 15. By July 21, the county auditor is to mail assessed value and tax notices to property owners. A taxpayer may then petition the County Board of Equalization between August 1 and August 15 for a revision of the assessed value. The county auditor makes approved changes in assessments rolls to the county treasurer. Tax notices are mailed with a due date of November 30. Delinquent taxes are subject to a 2% penalty, with a \$10 minimum penalty. If delinquent taxes and penalties are not paid by January 15 of the following year, these delinquent taxes, including penalties, are subject to an interest charge at an annual rate equal to the federal discount rate plus 6%; the interest period is from January 1 until date paid.

As of December 31, 2005, property taxes receivable consists of 1) delinquent taxes assessed but uncollected for calendar year 2004 and earlier and 2) taxes assessed as of January 1, 2005, but are not due and payable until November 30, 2005. It is expected that all delinquencies plus accrued interest and penalties will be collected within a five-year period, during which time, the county treasurer may force the sale of property to collect the delinquent portion. Only the portion of property taxes receivable that meets the revenue recognition criteria is reported as revenue in the fund financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (Continued)

I. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, statement of net assets.

J. Net Assets/Fund Balances

The difference between assets and liabilities is "Net Assets" on the government-wide financial statements and "Fund Balance" on the governmental fund financial statements. Net assets are divided into invested in capital assets (net of related debt), restricted and unrestricted. Net assets are reported as restricted when constraints are placed upon them by external parties or are imposed by constitutional provisions or enabling legislation. In the governmental fund financial statements, fund balances are classified as reserved, unreserved designated, or unreserved undesignated. Reserves represent those portions of fund balance not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

3. DEPOSITS AND INVESTMENTS

The District follows the requirements of the Utah Money Management Act (Utah Code, Section 51, Chapter 7) in handling its depository and investment transactions. The Act requires the depositing of District funds in a qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a formal deposit policy for custodial credit risk. At December 31, 2005, the District's bank balance of cash on deposit was \$1,781 of this amount \$1,781 was insured.

Investments

The Money Management Act defines the types of securities authorized as appropriate investments for the District and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities. Statutes authorize the District to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investors Services or Standard & Poor's; bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund.

3. DEPOSITS AND INVESTMENTS (Continued)

The Utah State Treasurer's Office operates the Public Treasurer's Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer. The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, and Utah Code Annotated, 1953, as amended. The Act established the Money Management Council, which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses – net of administration fees, of the PTIF are allocated based upon the participant's average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

As of December 31, 2005, the District had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1-5	6-10	More than 10
State of Utah Public Treasurer's Investment Fund	\$ 324,763	\$ 324,763			
Total Investments	<u>\$ 324,763</u>	<u>\$ 324,763</u>	<u>\$...</u>	<u>\$...</u>	<u>\$...</u>

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District manages this risk in part by investing in the Utah Public Treasurers Investment Fund. The District also manages its exposure to fair value loss arising from increasing interest rates is to comply with the State's Money Management Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity on all investments in commercial paper, bankers' acceptance, fixed rate negotiable deposits, and fixed rate corporate obligations to 270-365 days or less. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding 2 years.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District has not adopted a formal policy with regards to credit risk on investments but the District informally follows the policy for reducing its exposure to credit risk is to comply with the State's Money Management Act as previously discussed.

3. DEPOSITS AND INVESTMENTS (Continued)

At December 31, 2005, the District had the following investments and quality ratings:

Investment Type	Fair Value	Quality Ratings			Unrated
		AAA	AA	A	
State of Utah Public Treasurer's Investment Fund	\$ 324,763				\$ 324,763
Total	\$ 324,763	\$...	\$...	\$...	\$ 324,763

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District informal policy for reducing this risk of loss is to comply with the Rules of the Money Management Council. No more than 5% of all funds may be invested in securities of a corporation that has been in continuous operation for less than three years. No more than 5% of the outstanding voting securities of any one corporation may be held. In addition, Rule 2 limits investment concentrations in certain types of investments. Rule 17 of the Money Management Council limits investments in a single issuer of commercial paper and corporate obligations to 5-10% depending upon the total dollar amount held in the portfolio.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District does not have a formal policy for custodial credit risk. As of December 31, 2005, the District had \$324,763 invested in the Public Treasurer's Investment Fund and was held by them.

4. RESTRICTED CASH

In connection with bond agreements, the District has agreed to set aside money into a sinking fund account and a reserve fund. These funds are to assure that adequate money is available to service debt payments as they come due. The amount set aside is outlined by the bond agreement. The required amount to be set aside this year in the sinking fund and reserve fund is \$218,738. In the current year, the District has set aside \$172,912 in the bond sinking fund account and \$125,811 in a Zions First National Bank Trust account.

5. CAPITAL ASSETS

Depreciation expense was charged to governmental functions as follows:

Highways and public improvements	\$256,172
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5. **CAPITAL ASSETS (Continued)**

Capital asset activity for the year ended December 31, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 46,547			\$ 46,547
Total capital assets not being depreciated:	<u>\$ 46,547</u>	<u>\$...</u>	<u>\$...</u>	<u>\$ 46,547</u>
Capital assets being depreciated:				
Land improvements	\$ 2,395			\$ 2,395
Buildings	27,816			27,816
Water/sewer improvement	12,632,035			12,632,035
Equipment	<u>9,608</u>			<u>9,608</u>
Total capital assets being depreciated:	<u>\$ 12,671,854</u>	<u>\$...</u>	<u>\$...</u>	<u>\$ 12,671,854</u>
Less accumulated depreciation for:				
Land improvements	\$ 1,836	\$ 240		\$ 2,076
Buildings	18,277	971		19,248
Water/sewer improvement	2,053,507	254,000		2,307,507
Equipment	<u>7,446</u>	<u>961</u>		<u>8,407</u>
Total accumulated depreciation	<u>\$ 2,081,066</u>	<u>\$ 256,172</u>	<u>\$...</u>	<u>\$ 2,337,238</u>
Total capital assets being depreciation, net	<u>\$ 10,590,788</u>	<u>\$ (256,172)</u>	<u>\$...</u>	<u>\$ 10,334,616</u>
Governmental activities capital assets, net	<u>\$ 10,637,335</u>	<u>\$ (256,172)</u>	<u>\$...</u>	<u>\$ 10,381,163</u>

6. **LONG-TERM DEBT**

During 1996, the District issued General Obligation Refunding Bonds, Series November 22, 1996, in the District's name for \$126,000 to Zions First National Bank, bearing 6.95 percent - 7.75 percent interest. The refunding issue was used to pay off previous general obligation bonds, series 1988.

The long-term debt will mature according to the following schedule:

<u>Due Date</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
06-01-2006	\$ 659	\$ 17,000	\$ 17,659
Total	<u>\$ 659</u>	<u>\$ 17,000</u>	<u>\$ 17,659</u>

During 1996, the District issued Taxable Water Revenue Refunding Bonds, Series November 22, 1996, in the District's name for \$174,000 to Zions First National Bank, bearing 7.30 percent - 8.10 percent interest. The refunding issue was used to pay off previous Water Revenue Bonds, Series 1988.

The long-term debt will mature according to the following schedule:

<u>Due Date</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
06-01-2006	\$ 1,580	\$ 39,000	\$ 40,580
Total	<u>\$ 1,580</u>	<u>\$ 39,000</u>	<u>\$ 40,580</u>

During 1996, the District issued Taxable Sewer Revenue Refunding Bonds, Series November 22, 1996, in the District's name for \$233,000 to Zions First National Bank, bearing 7.30 percent - 8.10 percent interest. The refunding issue was used to pay off previous Sewer Revenue Bonds, Series 1988.

The long-term debt will mature according to the following schedule:

<u>Due Date</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
06-01-2006	\$ 2,066	\$ 51,000	\$ 53,066
	<u>\$ 2,066</u>	<u>\$ 51,000</u>	<u>\$ 53,066</u>

6. **LONG-TERM DEBT (Continued)**

The District obtained a loan from the Community Impact Bonus Loans, entitled Sewer Revenue Bond, on November 22, 1996, in the District's name for \$225,000, bearing 3.0 percent interest. The loan was used for sewer construction and improvements for the District.

The long-term debt will mature according to the following schedule:

<u>Due Date</u> <u>February 1,</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2006	\$ 5,100	\$ 8,000	\$ 13,100
2007	4,860	8,000	12,860
2008	4,620	8,000	12,620
2009	4,380	9,000	13,380
2010	4,110	9,000	13,110
2011-2015	16,410	48,000	64,410
2016-2020	8,700	56,000	64,700
2021-2022	1,080	24,000	25,080
Total	<u>\$ 49,260</u>	<u>\$ 170,000</u>	<u>\$ 219,260</u>

The District obtained a loan from the Utah Water Quality Board, entitled Spanish Valley Water & Sewer Improvement District Revenue Bond 1996, on November 22, 1996 for the amount of \$835,000, non-interest bearing. The funds from the loan will be used for wastewater construction and maintenance for the District.

The long-term debt will mature according to the following schedule:

<u>Due Date</u> <u>February 1,</u>	<u>Principal</u>	<u>Total</u>
2006	\$ 42,000	\$ 42,000
2007	42,000	42,000
2008	42,000	42,000
2009	42,000	42,000
2010	42,000	42,000
2011-2015	210,000	210,000
2016-2017	84,000	84,000
Total	<u>\$ 504,000</u>	<u>\$ 504,000</u>

6. **LONG-TERM DEBT (Continued)**

The District has been granted three loans from the United States Department of Agriculture Rural Development. This loan, in combination with the two subsequently shown loans of \$189,000 and \$400,000 were made to obtain sufficient funds for construction of a waste water system for the District. This loan from the Department of Agriculture is for \$400,000, bearing interest of 4.5 percent, payable over 40 years, and is secured by a Sewer Revenue Bond 1996. The repayment schedule is as follows:

\$400,000 Loan (Payable in monthly payments of \$1,808)

<u>Due Date</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2006	\$ 16,108	\$ 5,588	\$ 21,696
2007	15,852	5,844	21,696
2008	15,583	6,113	21,696
2009	15,302	6,394	21,696
2010	15,009	6,687	21,696
2011-2015	70,143	38,337	108,480
2016-2020	60,490	47,990	108,480
2021-2025	48,407	60,073	108,480
2026-2030	33,280	75,200	108,480
2031-2035	14,345	94,135	108,480
2036	239	14,049	14,288
Total	<u>\$ 304,758</u>	<u>\$ 360,410</u>	<u>\$ 665,168</u>

6. **LONG-TERM DEBT (Continued)**

The District has been granted three loans from the United States Department of Agriculture Rural Development. This loan, in combination with the previously shown and the subsequently shown loans of \$400,000 each were made to obtain sufficient funds for construction of a waste-water system for the District. This loan from the Department of Agriculture is for \$189,000, bearing interest of 4.5 percent, payable over 40 years, and is secured by a Sewer Revenue Bond 1996. The repayment schedule is as follows:

\$189,000 Loan (Payable in monthly installments of \$855)

<u>Due Date</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2006	\$ 7,513	\$ 2,747	\$ 10,260
2007	7,387	2,873	10,260
2008	7,255	3,005	10,260
2009	7,116	3,144	10,260
2010	6,972	3,288	10,260
2011-2015	32,451	18,849	51,300
2016-2020	27,705	23,595	51,300
2021-2025	21,763	29,537	51,300
2026-2030	14,326	36,974	51,300
2031-2035	5,022	45,383	50,405
Total	<u>\$ 137,510</u>	<u>\$ 169,395</u>	<u>\$ 306,905</u>

6. **LONG-TERM DEBT (Continued)**

The District has been granted three loans from the United States Department of Agriculture Rural Development. This loan, in combination with the two previously shown loans of \$189,000 and \$400,000 were made to obtain sufficient funds for construction of a waste- water system for the District. This loan from the Department of Agriculture is for \$400,000, bearing interest of 4.5 percent, payable over 40 years, and is secured by a Parity Water Revenue Bond 2000B. The loan is payable in monthly payments of \$1,816. The repayment schedule is as follows:

<u>Due Date</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2006	\$ 17,075	\$ 4,717	\$ 21,792
2007	16,858	4,934	21,792
2008	16,631	5,161	21,792
2009	16,394	5,398	21,792
2010	16,146	5,646	21,792
2011-2015	76,594	32,366	108,960
2016-2020	68,445	40,515	108,960
2021-2025	58,243	50,717	108,960
2026-2030	45,473	63,487	108,960
2031-2035	29,487	79,473	108,960
2036-2040	9,566	89,172	98,738
Total	<u>\$ 370,912</u>	<u>\$ 381,586</u>	<u>\$ 752,498</u>

6. **LONG-TERM DEBT (Continued)**

The District obtained a loan from the Utah Division of Drinking Water, entitled Spanish Valley Water & Sewer Improvement District Parity Water Revenue Bond, Series 2000A, on September 28, 2000 for the amount of \$2,400,000, bearing interest of .535 percent. The funds from the loan are being used for construction of a water system for the District. The repayment schedule is as follows:

<u>Due Date</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
01-01-2006	\$ 10,272	\$ 120,000	\$ 130,272
01-01-2007	9,630	120,000	129,630
01-01-2008	8,988	120,000	128,988
01-01-2009	8,346	120,000	128,346
01-01-2010	7,704	120,000	127,704
2011-2015	28,890	600,000	628,890
2016-2020	12,840	600,000	612,840
01-01-2021	642	120,000	120,642
Total	<u>\$ 87,312</u>	<u>\$ 1,920,000</u>	<u>\$ 2,007,312</u>

The District obtained a loan from the Utah Division of Drinking Water, entitled Spanish Valley Water & Sewer Improvement District Parity Water Revenue Bond, Series 2000C, on April 8, 2002 for the amount of \$238,400, bearing interest of .535 percent. The funds from the loan are being used for construction of a water system for the District. The repayment schedule, when all of the funds have been received, will be as follows:

<u>Due Date</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
01-01-2006	\$ 1,224	\$ 13,000	\$ 14,224
01-01-2007	1,155	14,000	15,155
01-01-2008	1,080	13,000	14,080
01-01-2009	1,010	14,000	15,010
01-01-2010	935	13,000	13,935
2011-2015	3,602	68,000	71,602
2016-2020	1,793	67,000	68,793
2021-2022	212	27,000	27,212
Total	<u>\$ 11,011</u>	<u>\$ 229,000</u>	<u>\$ 240,011</u>

6. **LONG-TERM DEBT (Continued)**

Listed below is the change in long-term debt during the year ended December 31, 2005.

	Balance 12-31-04	Debt Retired	New Issues	Balance 12-31-05	Amount Due in One Year
Governmental Activities:					
Bonds payable					
G.O. Sewer Refund Bond 1996	\$ 32,000	\$ (15,000)		\$ 17,000	\$ 17,000
Water Refund Rev Bond 1996	58,000	(19,000)		39,000	39,000
Sewer Refund Rev Bond 1996	76,000	(25,000)		51,000	51,000
CIB Sewer Rev Bond 1996	178,000	(8,000)		170,000	8,000
DWQ Sewer Rev Bond 1996	546,000	(42,000)		504,000	42,000
Rur Dev Rev Bond 1996	365,718	(5,308)		360,410	5,588
Rur Dev Rev Bond 1996	171,955	(2,560)		169,395	2,747
DDW Water Rev Bond 2000A	2,040,000	(120,000)		1,920,000	120,000
Rur Dev Water Rev Bond 2000B	385,963	(4,377)		381,586	4,717
DDW Water Rev Bond 2000C	241,842	(12,842)		229,000	13,000
Total	\$ 4,095,478	\$ (254,087)	\$...	\$ 3,841,391	\$ 303,052

7. **DEFEASED DEBT**

On November 22, 1996, the Spanish Valley Water & Sewer Improvement District issued \$533,000 in General Obligation and Revenue Bonds to advance refund and defease all of the 1988 Bonds that are callable for redemption prior to maturity. The net proceeds of \$474,727 (after payment of escrow fees, set-up fees and reserve accounts) were used to purchase U.S. Government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability for those bonds has been removed from the long-term liabilities.

8. **PENSION**

Spanish Valley Water & Sewer Improvement District does not participate in a retirement program.

9. **PAYROLL EXPENSE**

Spanish Valley Water & Sewer Improvement District did not have any payroll expense during the year ended December 31, 2005.

10. **CONTINGENT OBLIGATIONS**

Management, the Board of Directors and legal counsel for Spanish Valley Water & Sewer Improvement District are aware of no litigation involving the District, either in progress or pending, which would materially affect the financial statements as of December 31, 2005, nor of any material contingencies not otherwise disclosed in the Notes to Financial Statements contained herein.

11. **RESERVED FUND BALANCE**

The designated fund balance, as shown on the balance sheet, has been set aside for retirement of the District's bonds payable.

12. **BUDGETARY COMPLIANCE**

The District did not overspend their general fund in the current year.

**SPANISH VALLEY WATER & SEWER IMPROVEMENT DISTRICT
STATEMENT OF REVENUES, EXPENDITURES/EXPENSES AND
ADMINISTRATION COSTS - ALLOCATED FOR ALL DISTRICTS
RECORDED IN THE GRAND WATER AND SEWER SERVICE AGENCY
FOR THE YEAR ENDED DECEMBER 31, 2005**

	GRAND WATER AND SEWER SERVICE AGENCY AUDIT TOTALS <u>DECEMBER 31, 2005</u>	GRAND COUNTY WATER CONSERVANCY DISTRICT - AUDIT AND ALLOCATED TOTALS <u>DECEMBER 31, 2005</u>	SPANISH VALLEY WATER & SEWER IMPROVEMENT DISTRICT - AUDIT AND ALLOCATED TOTALS <u>DECEMBER 31, 2005</u>	GRAND COUNTY SPECIAL SERVICE WATER DISTRICT - AUDIT AND ALLOCATED TOTALS <u>DECEMBER 31, 2005</u>
Governmental Revenues:				
Taxes		\$ 86,253	\$ 43,194	\$ 157,837
Interest income		7,147	9,554	11,890
Total governmental revenues	\$...	\$ 93,400	\$ 52,748	\$ 169,727
Operating Revenues: (allocated to Districts)				
Water fees	\$ 426,981	\$ 124,189	\$ 302,792	
Sewer fees	452,078		452,078	
Impact fees	272,380		272,380	
Other fees	26,673	526	26,147	
Irrigation fees	107,831	107,831		
Total operating revenues	\$ 1,285,943	\$ 232,546	\$ 1,053,397	\$...
Total all revenues	\$ 1,285,943	\$ 325,946	\$ 1,106,145	\$ 169,727
Governmental expenditures:				
Highways and public improvements		\$ 30	\$ 24	
Debt service-				
Principal		108,921	254,087	\$ 109,228
Interest and fees		53,787	69,976	51,127
Total governmental expenditures	\$...	\$ 162,738	\$ 324,087	\$ 160,355
Operating Expenses: (allocated to Districts)				
Administrative costs allocation (net of interest income - \$35,444)	\$ 297,061	\$ 36,377	\$ 260,684	
Water commissioner	3,806	3,806		
Sewer treatment	124,214		124,214	
Water assessments and purchases	32,893	32,893		
Repairs and maintenance	292,283	78,165	214,118	
Bad debts	74		74	
Billing expense	7,046	705	6,341	
Rent	8,182	818	7,364	
Total operating expenses	\$ 765,559	\$ 152,764	\$ 612,795	\$...
Total all expenditures/expenses	\$ 765,559	\$ 315,502	\$ 936,882	\$ 160,355

SPANISH VALLEY WATER & SEWER IMPROVEMENT DISTRICT
STATEMENT OF REVENUES, EXPENDITURES/EXPENSES AND
ADMINISTRATION COSTS - ALLOCATED FOR ALL DISTRICTS
RECORDED IN THE GRAND WATER AND SEWER SERVICE AGENCY
FOR THE YEAR ENDED DECEMBER 31, 2005

	GRAND WATER AND SEWER SERVICE AGENCY TOTALS <u>DECEMBER 31, 2005</u>	GRAND COUNTY WATER CONSERVANCY DISTRICT TOTALS <u>DECEMBER 31, 2005</u>	SPANISH VALLEY WATER & SEWER IMPROVEMENT DISTRICT TOTALS <u>DECEMBER 31, 2005</u>	GRAND COUNTY SPECIAL SERVICE WATER DISTRICT TOTALS <u>DECEMBER 31, 2005</u>
Excess of all revenues over (under) all expenditures/expenses	\$ 520,384	\$ 10,444	\$ 169,263	\$ 9,372
Non-operating Revenues (Expenses) (Agency amounts allocated to Districts)				
Interest expense	\$ (182)		\$ (182)	
Connection fees	62,889		62,889	
Transfer to Water & Sewer Agency	10,960	\$ (10,960)		\$ (10,960)
Transfer to Water Conservancy District	(75,000)	75,000		
Transfer to Spanish Valley W & S	(319,271)		319,271	
Total non-operating revenues (expenses)	\$ (320,604)	\$ 64,040	\$ 381,978	\$ (10,960)
Net income/(loss)	\$ 199,780	\$ 74,484	\$ 551,241	\$ (1,588)
Allocation of Grand Water & Sewer Service Agency net income/(loss) *	\$ 199,780	15,742	184,038	
Net income/(loss) current year	\$...	\$ 90,226	\$ 735,279	\$ (1,588)

* Calculation of allocated Net income/(loss)
of Grand Water & Sewer Service Agency

Total operating revenues	\$ 232,546	\$ 1,053,397
Total operating expenses	(152,764)	(612,795)
Net operating income/(loss)	\$ 79,782	\$ 440,602
Non-operating revenues/(expenses)		
Interest expense		\$ (182)
Connection Fees		62,889
Transfer from/(to)	\$ (64,040)	(319,271)
Total non-operating revenues/(expenses)	\$ (64,040)	\$ (256,564)
Net income/(loss)	\$ 15,742	\$ 184,038

Note: This schedule is for analysis of funds available in the Grand Water & Sewer Service Agency that pertain to Grand County Water Conservancy District, Spanish Valley Water & Sewer Improvement District and Grand County Special Service Water District. Financial information does not necessarily reflect the revenues and expenditures/expenses reported in their individual reports.

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UTAH ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees

Spanish Valley Water & Sewer Improvement District

Moab, Utah 84532

RE: Report on Compliance and Other Matters
and on Internal Control Over Financial
Reporting Based on an Audit of Financial
Statements Performed in Accordance With
Government Auditing Standards

We have audited the financial statements of Spanish Valley Water & Sewer Improvement District, as of and for the year ended December 31, 2005, and have issued our report thereon dated May 12, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the operating committee, management, others within the organization, board of directors, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

SMUIN, RICH & MARSING

Smuin, Rich & Marsing

Price, Utah

May 12, 2006

SMUIN, RICH & MARSING

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Board of Trustees
Spanish Valley Water & Sewer Improvement District
Moab, Utah 84532

Re: Report on Legal Compliance with Applicable
Utah State Laws and Regulations

Ladies/Gentlemen:

We have audited the accompanying financial statements of the governmental activities of Spanish Valley Water & Sewer Improvement District, for the year ended December 31, 2005, and have issued our report thereon dated May 12, 2006. Our audit included testwork on the District's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

Public Debt
Cash Management
Purchasing Requirements
Special Districts

Budgetary Compliance
Truth in Taxation & Property
Tax Limitations
Other Compliance Requirements

The District did not receive any major or nonmajor state grants during the year ended December 31, 2005.

The management of Spanish Valley Water & Sewer Improvement District is responsible for the District's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In our opinion, Spanish Valley Water & Sewer Improvement District complied, in all material respects, with the general compliance requirements identified above for the year ended December 31, 2005.

SMUIN, RICH & MARSING

Smu, Rich & Marsing

Price, Utah

May 12, 2006